

Debt Restructuring Programs

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

FY2005 Appropriation	FY2006 Request
\$79,336,000	\$99,750,000 ¹

For FY2006, the Administration has requested \$99.75 million to be available for bilateral Heavily Indebted Poor Countries (HIPC) and poorest country debt reduction, and the HIPC Trust Fund, and the Tropical Forest Conservation Act (TFCA) debt reduction programs. Under the enhanced HIPC initiative, the requested funding could be used towards covering a portion of the cost of bilateral debt reduction for remaining qualified HIPCs, including the Democratic Republic of the Congo, and/or countries that may qualify for HIPC, including Liberia and Sudan and/or completing the payment of the U.S. pledge of \$150 million in additional contributions to the HIPC Trust Fund. At the 2002 G-7 Economic Summit, President Bush committed to fund a share of the additional financing requirements of the HIPC Trust Fund. The HIPC Trust Fund helps regional development banks and other multilateral institutions meet the costs of providing debt reduction to HIPC countries committed to economic, social and governance reforms.

The Enhanced HIPC Initiative

The international community's approach to treating the debt of the poorest countries with debt servicing problems has evolved substantially in the last decade. It culminated in 1999 with the Enhanced HIPC Initiative, which was launched to provide deeper, broader, and faster debt reduction for the poorest heavily indebted countries committed to economic reform and poverty reduction.

Debt Relief under the Enhanced HIPC Initiative

At the end of FY04, twenty-seven countries (Benin, Bolivia, Burkina Faso, Cameroon, Chad, Democratic Republic of the Congo, Ethiopia, The Gambia, Ghana, Guinea, Guinea Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia) had made sufficient progress on economic reforms and commitments to poverty reduction to reach their HIPC Decision Points. This enables them to benefit from relief on debt payments coming due. Fifteen of these countries (Uganda, Bolivia, Ethiopia, Ghana, Mozambique, Madagascar, Niger, Senegal, Tanzania, Burkina Faso, Mauritania, Benin, Mali, Guyana, and Nicaragua) have met the conditions to reach their HIPC Completion Points, and qualified for reduction in their stock of debt – six of these countries reached their Completion Points during FY04. In FY05, Madagascar

¹ The Administration has requested a total of \$99.75 million for Treasury debt restructuring programs overall, to be available for bilateral HIPC and poorest country debt reduction, contributions to the HIPC Trust Fund, and TFCA debt reduction. It has also requested flexible authority to determine the proportion of this amount to be used for each program.

reached its Completion Point, and five more countries – Cameroon, Chad, Honduras, Rwanda, and Zambia – may also reach their Completion Points.

Creditors have committed to reduce the external debt of these twenty-seven countries by about \$54 billion (nominal terms) under the HIPC framework. Overall debt relief for these countries, including from traditional mechanisms and additional bilateral relief provided by the U.S. and some other creditors, will reduce their debt by about two-thirds in aggregate.

U.S. Leadership on the HIPC Initiative

The United States has been a leader on the enhanced HIPC initiative. This has been reflected in the Administration's budget requests and Congressional actions over the past few years. For instance:

- The FY00 Foreign Operations Appropriations Act provided \$110 million for U.S. bilateral HIPC debt reduction costs.
- In FY01, Congress appropriated a total of \$434 million for the HIPC initiative, of which the Administration allocated \$360 million for contributions to the HIPC Trust Fund and \$74 million for U.S. bilateral HIPC debt reduction costs.
- The FY01 Foreign Operations Appropriations Act also authorized the U.S. to support the use, solely for the reduction of debt owed to the IMF under the modified HIPC initiative, of the full earnings on the investment of the profits from IMF non-public gold sales.
- In FY02, Congress appropriated \$224 million for the HIPC Trust Fund. Combined with \$16 million in uncommitted debt restructuring account balances, this allowed the U.S. to fulfill its previous commitment to contribute a total of \$600 million to the HIPC Trust Fund.
- In FY04, Congress appropriated \$74.6 million for the HIPC Trust Fund. This provided funds to meet a portion of the U.S. pledge of an additional \$150 million for the HIPC Trust Fund, in keeping with the commitment made by the President to help fund remaining HIPC costs.
- In FY05, Congress appropriated \$79.3 million for the HIPC Trust Fund and/or bilateral debt reduction costs. A large share of this is anticipated to go toward the reduction, under the HIPC initiative, of debt owed by the Democratic Republic of Congo to the U.S.

Burden sharing: Official bilateral creditors are expected to contribute to the multilateral HIPC Trust Fund to help cover HIPC costs of regional multilateral institutions, as well as reduce their own bilateral claims. The United States has pledged funds to meet roughly 22 percent of HIPC Trust Fund costs and has so far contributed roughly 23 percent of amounts paid-in (\$600 million out of \$2.6 billion). A table at the end of this section provides a status report on pledges and contributions to the HIPC Trust Fund.

HIPC Debt Relief

For Countries That Have Reached Their Decision Point under the Enhanced HIPC Initiative

Total Post-Naples Terms Debt Relief Committed, \$US Millions

	HIPC II Decision Point	Debt Reduction			
		NPV HIPC I	NPV HIPC II	Total NPV	Total Nominal
Benin	July 2000		265	265	460
Bolivia	Feb. 2000	448	854	1,302	2,060
Burkina Faso	June 2000	229	324	553	930
Cameroon	Oct. 2000		1,260	1,260	2,800
Chad	May 2001		170	170	260
Congo, Dem. Rep.	July 2003		6,311	6,311	10,389
Ethiopia	Nov. 2001		1,982	1,982	3,275
The Gambia	Dec. 2000		67	67	90
Ghana	Feb. 2000		2,186	2,186	3,500
Guinea	Dec. 2000		545	545	800
Guinea-Bissau	Dec. 2000		416	416	790
Guyana	Nov. 2000	256	335	591	1,353
Honduras	July 2000		556	556	900
Madagascar	Dec. 2000		814	814	1,500
Malawi	Dec. 2000		643	643	1,000
Mali	Sept. 2000	121	417	539	895
Mauritania	Feb. 2000		622	622	1,100
Mozambique	April 2000	1,717	306	2,023	4,300
Nicaragua	Dec. 2000		3,308	3,308	4,500
Niger	Dec. 2000		664	664	1,190
Rwanda	Dec. 2000		452	452	800
Sao Tome & Principe	Dec. 2000		97	97	200
Senegal	June 2000		488	488	850
Sierra Leone	March 2002		600	600	950
Tanzania	March 2000		2,026	2,026	3,000
Uganda	Feb. 2000	347	656	1,003	1,950
Zambia	Dec. 2000		2,499	2,499	3,850
Total HIPC		3,118	28,863	31,981	53,692

Source: IMF/World Bank; *Heavily-Indebted Poor Countries (HIPC) Initiative – Status of Implementation*. August 23, 3004.

HIPC debt relief will significantly reduce annual debt service obligations, freeing resources for poverty reduction expenditures. Over the 2001-2005 period, total annual debt service savings for these countries will average \$1.0 billion.

**Debt Service Indicators for 27 Countries That Have Reached Their
Enhanced HIPC Decision Points**

	Debt Service/Exports (%)	Debt Service/GDP (%)	Debt Service/Revenues (%)
Before HIPC relief	15.7	3.7	23.5
After HIPC relief	9.2	2.3	14.1

“Before HIPC Relief” uses 1998/999 actual payments data.

“After HIPC Relief” is average for 2001 to 2005; these figures do not reflect additional bilateral debt reduction.

Source: IMF/World Bank. *HIPC Status of Implementation*. August, 2004

Costs of the Enhanced HIPC Initiative

The total cost of the initiative, as measured in net present value (NPV) of debt reduced, is currently estimated to be \$54.5 billion for 37 HIPCs. The U.S. budget cost under the HIPC initiative for these countries is approximately \$1.5 billion (excluding Somalia).

ESTIMATED TOTAL COST OF THE ENHANCED HIPC INITIATIVE*
(billions of dollars, 2003 NPV terms)

Creditor	Total
Bilateral	29.4
Paris Club	19.0
Other Official Bilateral	7.6
Commercial	2.8
Multilateral	25.2
World Bank/IDA	10.8
IMF	5.2
AfDB/AfDF	3.9
IDB	1.3
Others	4.0
Total	54.5

* These cost estimates include Sudan, Liberia and Somalia

Source: IMF/World Bank. *HIPC Status of Implementation*, August, 2004

Tools for Targeting Poverty Reduction

The U.S. was a strong proponent of instituting Poverty Reduction Strategy Papers (PRSPs), recognizing early on their importance as a mechanism to ensure country ownership of IFI lending programs. The U.S. supports the operational approach under which PRSPs are an integral part of the HIPC process, and serve as the framework for World Bank and IMF concessional lending, as well as for other donor assistance.

The U.S. has supported efforts to strengthen the effectiveness of PRSPs, namely by encouraging countries to set concrete, quantifiable targets against which PRSP results can be measured. In addition, PRSP's could be strengthened by encouraging greater focus and foresight in the documents while maintaining the integrity of country ownership; creating a place in policy formulation for private sector-led growth; and improving prioritization, costing estimates and public expenditure management in the PRSP process.

The IFIs require that PRSPs be developed through a broad participatory process under government leadership. U.S. agencies, particularly USAID, have worked with leaders of all sectors in countries to foster broad and meaningful participation. The participatory process is essential, particularly in countries with weak democratic institutions, for identifying key obstacles to growth and poverty reduction and for setting priorities on fiscal spending, public sector investments, and sometimes controversial elements of the national agenda.

Use of HIPC Relief

The HIPC qualifying countries are required to use the resources freed up by debt relief to support poverty reduction and economic growth. The table below shows how poverty-reducing expenditures have increased in HIPCs in recent years. Poverty-reducing expenditures for the 27 HIPCs that have reached their Decision Points were almost four times as large as their debt service payments in 2002.

Annual Poverty-Reducing Expenditures for 27 HIPCs (\$ billions)

	Africa	Latin America	Total
Before HIPC Relief	4.1	1.8	6.0
After HIPC Relief	6.8	2.2	9.0

"Before HIPC Relief" uses 1999 data.

"After HIPC Relief" is average for 2001 to 2005.

Source: IMF/World Bank. *HIPC Status of Implementation*. August, 2004.

Enhanced HIPC Framework – Status of Bilateral Donor Pledges to HIPC Trust Fund
(As of July 2004, amounts in nominal US\$ millions)

	Total Pledges			<i>Of which: Contributions Paid-in</i>
	<i>EU/EC Contribution</i>	<i>Bilateral</i>	<i>Total</i>	<i>(Including EU/EC Contribution)</i>
Australia	0	14	14	14
Austria	24	26	50	44
Belgium	36	29	65	46
Canada	0	165	165	165
Denmark	20	60	80	64
Finland	13	38	51	48
France	226	32	258	187
Germany	218	132	350	232
Greece	12	5	17	14
Iceland	0	3	3	2
Ireland	5	20	25	24
Italy	117	101	218	156
Japan	0	256	256	219
Korea	0	10	10	10
Luxembourg	3	1	4	2
Netherlands	49	194	243	174
New Zealand	0	2	2	2
Norway	0	127	127	127
Portugal	9	15	24	22
Russia	0	10	10	10
Spain	55	110	165	125
Sweden	25	84	109	77
Switzerland	0	93	93	93
United Kingdom	120	316	436	261
United States	0	750	750	600
TOTAL	931	2,589	3,520	2,716

Source: IDA. *HIPC Debt Relief Trust Fund Support for Regional and Sub-Regional Multilateral Creditors – Status Report*. September, 2004.

42 Countries Defined as Heavily Indebted Poor Countries (HIPCs)

27 HIPCs That Have Reached Their Decision Points (15 That Have Reached Their Completion Points)	6 HIPCs That Are Expected To Reach Their Decision Points in 2005 or Later	9 Other HIPCs
<p>Benin (Completion Pt.) Bolivia (Completion Pt.) Burkina Faso (Completion Pt.) Cameroon Chad Congo, Dem. Rep. Guyana (Completion Pt.) The Gambia Ghana (Completion Pt.) Guinea Guinea Bissau Ethiopia (Completion Pt.) Honduras Madagascar (Completion Pt.) Malawi Mali (Completion Pt.) Mauritania (Completion Pt.) Mozambique (Completion Pt.) Nicaragua (Completion Pt.) Niger (Completion Pt.) Rwanda Sao Tome & Principe Senegal (Completion Pt.) Sierra Leone Tanzania (Completion Pt.) Uganda (Completion Pt.) Zambia</p>	<p>Burundi Central African Republic Comoros Congo, Rep. Côte d'Ivoire Togo</p>	<p>Sustainable Debt Levels without HIPC Relief: Angola Kenya Vietnam Yemen</p> <p>Legislation Prevents the U.S. from Reducing Debt of: Burma Sudan</p> <p>Others: Laos Liberia Somalia</p>